

MEMORANDUM

To: Housing and Community Development Committee

From: Charlotte Caplan, Community Development Director

Date: July 9, 2007

Subject: Transfer of NHS Loan Program and Loan Portfolio

Summary

Consideration of a proposal by Neighborhood Housing Services of Asheville (NHS) to transfer its City-funded homeownership assistance loan program and loan portfolio to Mountain Housing Opportunities (MHO).

Review

NHS closed down its daily operations on June 30, 2007, after experiencing financial problems stemming from rising costs in its housing construction program. Its lending program, which provides second mortgage loans to low-income homebuyers, remains an active and viable program and has helped over 60 families to buy homes in the Asheville area in the past year. The NHS Board has proposed transferring the program to MHO, which is willing to take it over.

The lending program is currently funded from several sources, which gives it considerable flexibility in meeting the needs of different clients. NHS has received CDBG, HOME, and American Dream Downpayment Initiative (ADDI) funds through the City as follows:

CDBG: \$436,238 for loans in Asheville.

HOME: \$164,076 for loans in Buncombe County outside Asheville. Funds are allocated to the County, which is planning to issue an RFP for a new administrative agency.

ADDI: \$34,949 for loans in Buncombe, Madison, and Transylvania Counties. The HOME Consortium Board has recommended assigning these funds to MHO.

The amounts comprise both FY 2008 allocations and the balance of FY 2007 funds. Re-allocation of the CDBG and ADDI funds to another agency would be a non-substantial amendment of the Action Plans for those years, requiring Council approval but no public hearing. No City action is needed on the HOME funds.

NHS also manages an extensive portfolio of loans from previous City-funded rehabilitation, new home construction, and direct loan assistance programs. The value of the portfolio is approximately \$1,800,000. Income from loan repayments must be used for CDBG- or HOME-eligible activities. There is provision in the original funding agreements for loans to be assigned to another entity, provided the City approves.

NHS and MHO propose that the CDBG and ADDI funding, together with the existing loan portfolio, be transferred to MHO. MHO has offered to employ NHS's Loan Program Manager, who has been extremely effective in managing and expanding the program. MHO will also seek to become NHS's successor as Buncombe County's HOME loan program administrator and as the local NeighborWorks affiliate, giving it access to other funding sources.

Pro's

- ? Continues a valuable and effective program with minimum disruption to its operation and staffing;
- ? MHO has proven capacity in operating a wide range of affordable housing programs;
- ? Retains a variety of funding sources under control of one agency - important for program efficiency and flexibility;

Con's

- ? Puts a lot of eggs in one basket. CDBG and HOME allocations to MHO for all its activities in FY 2008 would increase from \$1,116,608 to \$1,522,720, or from 29% to 40% of total funds available.

Alternatives to the NHS/MHO proposal are:

1. Advertise a request for proposals from agencies interested in operating the program.

Pro – Introduces open competition into process.

Con – Will delay resumption of services; staff may seek other employment;
– MHO is likely to emerge as the best qualified, if not the only applicant.

2. Cancel loan program and re-allocate funds to other activities.

Pro – Allows full exploration of other program options.

Con – Loss of effective program for making homeownership affordable.

Recommendation

Staff recommends approval of the NHS/MHO proposal.